



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	HB0540	Title:	Alternative energy tax credit
Primary Sponsor:	Wilmer, Franke	Status:	As Introduced

- | | | |
|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$3,061,475)	(\$3,555,023)	(\$4,084,844)	(\$4,629,784)
Net Impact-General Fund Balance:	<u>(\$3,061,475)</u>	<u>(\$3,555,023)</u>	<u>(\$4,084,844)</u>	<u>(\$4,629,784)</u>

Description of fiscal impact: This bill would increase the limits on the residential energy conservation credit and the alternative energy system credit and allow taxpayers to carry unused energy conservation credits forward for three years. The full effect of the carryforward provision would not be felt until FY 2013, when the reduction in general fund revenue would be \$4.6 million.

FISCAL ANALYSIS

Assumptions:

- Under current law, individuals are allowed a credit against individual income tax for a portion of expenditures on energy conservation in a building or for an alternative energy system in the taxpayer's principal residence. The energy conservation credit is 25% of the expenditure with a maximum of \$500 per taxpayer (\$1,000 for a couple). This bill would increase the maximum credit to \$1,000 per taxpayer and allow taxpayers to carry excess credits forward for up to three years. The alternative energy system credit is for the full cost of a system with a maximum credit of \$500. This bill would increase the maximum credit to \$1,000 for systems that are not wood or biomass fired.

Energy Conservation Credit

- On 2007 returns, 7,798 taxpayers claimed the maximum credit. There were 2,090 individuals who claimed \$500 credits and 2,854 married couples who claimed \$1,000, either on a joint return or on separate returns filed on the same form.

3. Based on the distribution of credits less than \$500, it is estimated that, with a \$1,000 cap, 4,405 taxpayers would have claimed credits at the \$1,000 cap, and 3,393 taxpayers would have claimed credits between \$500, and \$1,000, with an average of \$664.
4. With a \$1,000 cap, credits would have been \$2,758,952 higher (4,405 x \$500 + 3,393 x \$164).
5. On 2007 returns, 4,153 taxpayers claimed credits that were more than their tax liability. The total amount of excess credits was \$1,193,351. This fiscal note assumes that, with the three-year carryforward allowed by this bill, these excess credits would have been used equally over the next three years at \$397,784 per year.

Alternative Energy System Credit

6. For 2007, there were 1,803 taxpayers who claimed \$712,228 in alternative energy system credits. Of these, 750 claimed credits less than the limit of \$500, and 1,053 claimed the maximum credit of \$500.
7. It is not known how many credits are for low emission wood or biomass systems. This fiscal note assumes that 25%, or 263, of the \$500 credits were not for wood or biomass systems. These taxpayers would have claimed credits between \$500 and \$1,000 if this bill had been in effect. This fiscal note assumes that the average credit for these taxpayers would have been \$800. Thus, if this bill had been in effect in 2007, taxpayers would have claimed additional credits of \$78,900 (263 x \$300).

Total

8. These credits are not forecast separately in HJR2, but they account for a large part of a group of income tax credits that are forecast to grow by the following percentages from the 2007 base:

Year	Growth from 2007
2009	7.88%
2010	10.15%
2011	13.38%
2012	16.69%

9. Assuming that the increased credits and carryforward of excess credits allowed by this bill would grow at the same rate as the current-law credit, the additional credits and carryforwards allowed by this bill would be as follows:

Tax Year	-----Additional Credits -----			Credits to Carry Forward
	Conservation Credit	System Credit	Total	
2009	\$2,976,357	\$85,117	\$3,061,475	\$1,287,387
2010	\$3,038,986	\$86,908	\$3,125,894	\$1,314,476
2011	\$3,128,100	\$89,457	\$3,217,557	\$1,353,021
2012	\$3,219,421	\$92,068	\$3,311,489	\$1,392,521

10. Credits for each tax year would be claimed on returns filed in the next higher numbered fiscal year. For example, credits for 2009 would be claimed in the spring of 2010, which is in FY 2010. Credits carried forward from each tax year will be claimed in the next three fiscal years. The following table shows the fiscal year revenue reductions from the additional credits and credit carryforwards:

	FY 2010		FY 2011		FY 2012		FY 2013	
Tax Year	Additional Credits	Carry- forward	Additional Credits	Carry- forward	Additional Credits	Carry- forward	Additional Credits	Carry- forward
2009	\$3,061,475			\$429,129		\$429,129		\$429,129
2010			\$3,125,894			\$438,159		\$438,159
2011					\$3,217,557			\$451,007
2012							\$3,311,489	
Subtotal	\$3,061,475	\$0	\$3,125,894	\$429,129	\$3,217,557	\$867,288	\$3,311,489	\$1,318,295
Total	\$3,061,475		\$3,555,023		\$4,084,844		\$4,629,784	

In FY 2010, taxpayers would claim additional credits for 2009, but would have no credits carried forward from previous years. In FY 2011, taxpayers would claim additional credits for 2010 and would use credits carried forward from 2009. In FY 2012, taxpayers would claim additional credits for 2011 and would use credits carried forward from 2009 and 2010. In FY 2013, taxpayers would claim additional credits for 2012 and use credits carried forward from 2009 through 2010. Fiscal years after FY 2013 would be affected like FY 2013, with additional credits plus credits carried forward from the three previous years.

11. Changes to tax forms and to the data processing system required by this bill will be made as part of the annual update process with no additional costs to the Department of Revenue.

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<u>Fiscal Impact:</u>				
<u>Revenues:</u>				
General Fund (01)	(\$3,061,475)	(\$3,555,023)	(\$4,084,844)	(\$4,629,784)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$3,061,475)	(\$3,555,023)	(\$4,084,844)	(\$4,629,784)

Sponsor's Initials

Date

Budget Director's Initials

Date